

Idaho Economic Forecast

DIRK KEMPTHORNE, Governor

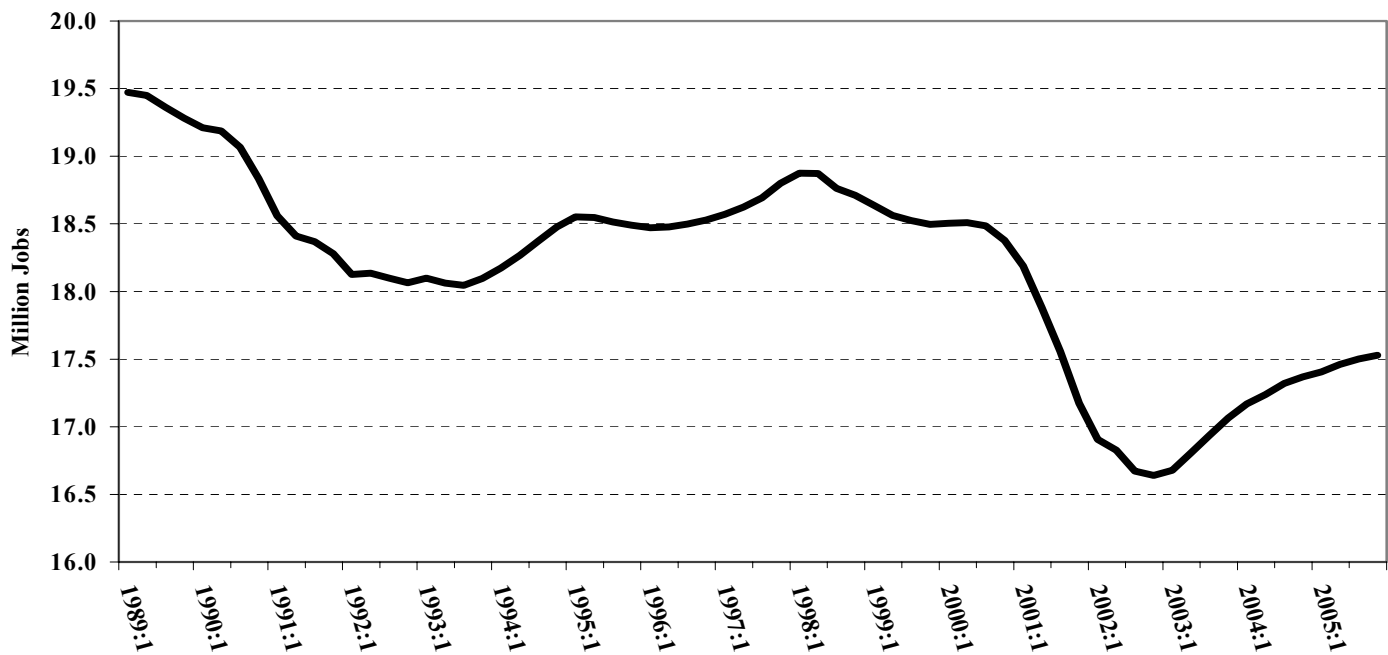
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- Forecast 2001-2005
- The Changing Budget Picture
- Alternative Forecasts

U.S. Manufacturing Employment



Source: DRI*WEFA

**IDAHO
ECONOMIC
FORECAST
2001 - 2005**

State of Idaho
DIRK KEMPTHORNE
Governor

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Division of Financial Management
700 W. Jefferson, Room 122
P.O. Box 83720
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PREFACE

Idaho's economy continues to grow and evolve as it enters the 21st Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded in every year and consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. This continuing dependence on natural resources will bring a host of challenges to Idaho. These challenges include competition among agriculture, fisheries, and expanding population, for water and energy; the environmental impacts of the economically important mining, timber, agricultural, and tourism industries; and the many other pressures of an expanding population on the state's natural and fiscal resources.

Other factors that are external to the state's economy will present challenges this decade to public and private decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Engineering and Environmental Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

Division of Financial Management
700 W. Jefferson, Room 122
P.O. Box 83720
Boise, Idaho 83720-0032

Economic Analysis Bureau
Michael H. Ferguson, Chief Economist
Derek E. Santos, Economist
(208) 334-3900

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INTRODUCTION

The national forecast presented in this publication is the March 2002 DRI*WEFA baseline forecast of the U.S. economy. The January 2002 *Idaho Economic Forecast* is based on the November 2001 DRI*WEFA baseline national forecast.

The mildness of the recent slowdown has left many questioning whether the U.S. suffered a recession. While there may be some ambiguity concerning the state of the aggregate economy, the U.S. manufacturing sector is clearly in a slump. A confluence of negative factors has caused this sector to shed jobs over the last few years. It is also expected to take longer to recover than other sectors of the economy. The cover graph illustrates the recent history and near-term outlook for U.S. manufacturing employment.

FEATURE

Although large changes in the federal budget outlook from year to year are not uncommon, the magnitude of the change for 2002 is unusually large. In January 2001, the Congressional Budget Office (CBO) reported that the federal government was projected to run a \$313 billion surplus in 2002. Now, just a little over a year later, the CBO's latest reports indicate a major deterioration in the budget projections. In its February 2002 report, the CBO projected a deficit of \$21 billion in 2002; in a revision released in March 2002, to account for the release of President Bush's federal budget for 2002–2003, the CBO projected a small surplus in 2002 under its baseline scenario and a \$90 billion deficit under the President's proposals. Finally, when the economic stimulus bill passed Congress, the CBO again revised its baseline projection for 2002 to show a \$46 billion deficit. This article examines the change in the budget outlook and discusses the causes of the revisions in the projections. This article was written by Carl E. Walsh. He is a Visiting Scholar at the Federal Reserve Bank of San Francisco.

THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. DRI*WEFA examines the effects of different economic scenarios, including the potential impacts of international recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1986 to 2005 and for every quarter from 1999 through 2004. The solution of the Idaho Economic Model (IEM) for this forecast begins with the fourth quarter of 2001.

Descriptions of the DRI*WEFA U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

CHANGES

The employment data that appear in this publication are based on monthly estimates provided by the Idaho Department of Labor. It has finalized employment numbers for the first nine months of 2001 and provided preliminary estimates for the remaining three months of the year. All of these data have been seasonally adjusted and converted into quarterly estimates by the Division of Financial Management (DFM). These current data show that Idaho nonfarm employment in the third quarter of 2002 was virtually the same as had been forecast in January 2002.

The tables in this forecast include the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) estimates of Idaho quarterly personal income through the third quarter of 2001. In addition to the 2001 third quarter income estimates, the historical Idaho quarterly income estimates for each of the first two quarters of 2001 were revised. This revision is traditionally done at this time. However, the results were not routine. Most notably, the wage and salary component of Idaho personal income was increased about 2.0% in the second quarter of last year. This also raised the state's average annual wage. These increases result in higher wage and salary payments and average annual wage forecasts. The BEA will release its next round of Idaho personal income estimates in late April 2002.

Last November, the Federal Reserve revised its U.S. industrial production indices. Many of these indices are used in the Idaho Economic Model (IEM) to drive employment forecasts for the state's basic industries. In order to incorporate the production data into the IEM, DFM re-estimated all of the stochastic equations of the IEM. A detailed list of the revised stochastic equations and the identities in the IEM can be found in the Appendix of this publication.

The *Idaho Economic Forecast* is available on the Internet at http://www.state.id.us/dfm/econ_pub.html. Readers with any questions should contact Derek Santos at (208) 334-3900 or at dsantos@dfm.state.id.us.

SUBSCRIPTIONS

You can access the *Idaho Economic Forecast* for free at http://www.state.id.us/dfm/econ_pub.htm.

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